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CIA HISTORICAL REVIEW PROGRAM
RELEASE IN FULL 1998

21 August 1970

Brig. Gen. G. A. Lincoln (Ret.)
Director, Office of Emergency Preparedness
Executive Office Building Annex

Dear Abe,

Enclosed are five copies of a CIA memorandum on The USSR and Middle Eastern Oil, prepared jointly by the Office of National Estimates and the Office of Economic Research, in response to your request of 28 July. This paper must be considered only a first cut at the complicated subject. We plan in the next two months to explore more deeply certain of the points raised here, to treat all of the more detailed questions you have now sent us, and to coordinate the larger document with the other intelligence agencies. In the process, we will be conferring with the appropriate specialists in the Department of the Interior as well as those at State.

We will include in the SNIE an estimate of the likelihood of each of the three denial contingencies you specified. It would further help us in tailoring the SNIE to your needs if you could let us know which of the matters treated in the memorandum seem to you to require fuller coverage. Does this paper bring new questions to mind?

ABBOT SMITH
Director
National Estimates

Comp. 13 Aug 70
To JNE
Enclosure

21 AUG 1970

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CENTRAL INTELLIGENCE AGENCY

OFFICE OF NATIONAL ESTIMATES

14 August 1970

MEMORANDUM (CIA Distribution Only -- Draft for Board
Consideration)

SUBJECT: Soviet Influence in the Middle East and its impact
on Middle East Oil

1. The Soviet Union has firmly established itself as a major power factor in the Middle East. Although this area is not one where its most vital national interests are involved -- relations with Eastern and Central Europe and Communist China are considered more important -- Moscow views its increasing influence as a partial fulfillment of a long-sought goal to replace Western influence in Mediterranean and contiguous countries. The Arab-Israeli conflict, accompanied by increasing radicalism in the Arab states, provides the Soviets with their greatest means of leverage in this area. It also faces them with increased risks. The most vivid example of these risks is demonstrated by the recent confrontation between Soviet air defense forces stationed in Egypt and the Israeli Air Force in carrying out its bombing campaign west of the Suez Canal.

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GROUP 1
Excluded from automatic
downgrading and
declassification

2. While some aspects of the Soviet position in the Middle East are susceptible to direct Soviet control, e.g., the USSR's naval squadron and the size and role of Moscow's military and economic assistance programs, many of the basic circumstances which shape Soviet policy here are determined in the main by decisions made elsewhere -- in Tel Aviv, Cairo, or Washington. Nonetheless, the Soviets have had considerable success with the opportunistic tactics which have accompanied their forward policy in the area, and they are probably optimistic about their ability to maintain their influence in the Arab states and to increase it over the long-term. Radicalism is almost certain to grow in the Arab states whether there be peace between the Arabs and Israelis or another round of war -- and radicalism tends to favor the Soviets, more than the West. Aside from increasing its influence in the older radical Arab states (Algeria, Egypt, Syria, and Iraq), Moscow has established closer relationships with and become a military supplier to the new radical regimes in the Sudan, and Southern Yemen, and more recently with Libya. Soviet influence is also growing in such moderate countries as Lebanon, Jordan, Tunisia, and Kuwait, largely as a by-product of Soviet support for the Arabs in the conflict with Israel.

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3. The expansion of Soviet political influence in the Middle East does not, however, imply an equivalent expansion of the limited role which the Soviets now play in Middle Eastern oil matters. Moscow would almost certainly like to have a greater role for both economic and political reasons -- possibly even to displace all the Western oil companies operating in the area -- but there are compelling practical considerations in the way. These range from the essentially nationalistic attitudes governing the actions of most Middle Eastern countries toward their mineral wealth, on the one hand, to the relatively small numbers of tankers and drilling specialists which the Communist camp now commands, on the other. We indicate below certain constraints on Soviet activities over the next five years, along with developments which we consider fairly likely and which could affect both the Soviet role and the flow of oil to Western markets.

4. The USSR is now self-sufficient in oil and will probably remain so at least through 1975. Moreover, it will continue to export oil from its own resources to the Free World. Satisfying rapidly growing export requirements as well as its own mushrooming demands for energy has, however, caused

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increasingly rapid exploitation of the USSR's petroleum reserves. For many years exports of oil have served as a leash to help tie the economies of Eastern Europe to the USSR and have also provided the USSR with its most important source of convertible currency. Over the past few years as new oil fields have been opened beyond the Urals, Soviet production costs have increased both because of more difficult extraction conditions and greater distances of centers of supply from markets. Increasingly expensive supply conditions have induced the USSR -- and countries of Eastern Europe as well -- to seek supplementary sources in the Near East, where because of geography and low production costs, marginal Soviet requirements can be satisfied more efficiently than from distant higher cost Soviet sources.

5. We expect Soviet purchases of Near Eastern oil to grow gradually over the next five years but to remain of only marginal importance in the total of Soviet requirements. Oil plays too vital a role in the operation of the Soviet economy and military establishment for the Kremlin to contemplate reliance on external sources of supply for any but the least important uses. Thus we expect continued Soviet

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acquisitions of Near Eastern oil for Soviet internal use or delivery to Eastern Europe on Soviet account, to remain small as compared with the USSR's own production.

6. We would not expect the USSR to initiate any moves to deny Near Eastern oil to NATO or Japan even if they could. Except for conditions of global war, the USSR could not afford the costs of preclusive acquisition which denial on a large-scale would imply. Denial on a small-scale would serve as little more than an annoyance to the NATO allies and would moreover be costly to Moscow in terms of international goodwill. Such denial resulting from a Soviet initiative would be viewed by the US and NATO as an act of economic warfare which would at the least endanger current steps toward an East-West detente. Such economic imperialism, moreover, would be viewed with dismay by the entire underdeveloped world as heralding a potential source of extreme disruption to their own commodity markets. Soviet commercial interests, finally, probably coincide with those of the Arabs and the oil consumers in dictating stability in international oil markets.

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7. The prospect of a Soviet denial of Middle East oil to Western Europe, Japan or the United States seems remote. Even in the unlikely event that the Soviets acquired a major role as a distributor of Middle Eastern oil, Moscow would be forced to sell it for hard currency rather than hold it off the market.^{1/} The amounts involved are so huge, both in terms of USSR's convertible currency reserves or ability to provide hard goods to the oil producers, that the Soviet Union would not be able to purchase a major portion of Near East oil for its own account.^{2/} Likewise, the Soviet Union would be hard put to persuade Europe's Middle East suppliers to withhold their oil for any length of time since oil revenues are so important to their economies and national goals. Most Middle Eastern oil becomes valuable only when it is processed, transported, and marketed in Western Europe, Japan, and elsewhere. While Moscow has drilling contracts with the Egyptian, Syrian, and Iraqi national oil companies, it has become only peripherally involved in production or marketing.

^{1/} The USSR presently exports some 800,000 barrels per day to Western European countries, much of it for hard currency.

^{2/} Soviet gold holdings are estimated at \$1.6 billion, palpably insufficient to carry out a preclusive action.

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8. The actual Soviet role in the Middle Eastern oil industry over the next five years may take several forms. Soviet advisors could assist certain of the Arab countries to manage their national or nationalized oil companies. Already Soviet experts are engaged in a survey of Libyan oil reserves. In addition the Soviets might become involved as brokers in the sale of nationalized oil: i.e., the Soviets acting as middlemen in finding buyers in Europe or elsewhere for Arab national oil companies producing petroleum from concessions seized from Western oil companies. Moscow might find this profitable both commercially and politically. Moscow could become involved as well in the construction of pipelines -- the Soviets built part of the Iranian-Soviet natural gas line and may build an oil pipeline in Syria. Thus, it is possible in the long run for the Soviets to gain important positions in the oil industry in the Arab states.

9. We have seen no indications that Moscow has been encouraging any of the Middle Eastern oil producing states to nationalize foreign-owned oil concessions or to cut-off exports. However, should one or another of these states seize foreign-owned oil properties, there is little doubt that if asked

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Moscow would step in to assist them in producing and/or marketing their oil. The greater danger lies in the existing euphoria in the Arab states arising out of Moscow's support of the Arab cause against Israel. This could encourage one or another radical Arab state to seize oil concessions, banking on the prospect that Moscow would help it out in operating its oil industry.

10. Over the next five years pressures for change in the relationship between the producing companies and the oil states will increase, especially in the profit sharing arrangements. National oil companies will more frequently hold the concessions, with the private oil companies relegated to the role of contractors producing the oil for these companies. In some cases, presently operating companies may be replaced by other companies operating as contractors. This may happen in the very near future to one or more of the companies operating in Libya. A likely target would be a smaller company, such as the Occidental Oil Company, which could be seized and incorporated into the Libyan National Oil Company. One of the large international oil companies might be too big for the Libyans to seize and operate in the near future.

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ANNEX

TANKERS

The world tanker fleet in oil service at the end of 1969 totalled almost 135 million deadweight tons (DWT) ^{1/} with a carrying capacity equivalent to about 8,600 T-2 tankers. ^{2/} The tanker fleet of the USSR and other Communist countries represented about 4 percent of the world fleet. ^{3/} With the Suez Canal closed, oil production cut back in Libya, and the Tapline shutdown, there will be little if any spare tanker capacity through the first quarter of 1971. Based on a forecasted 6 percent annual growth rate in world oil consumption through 1975, the demand for tankers at that time will be about 14,000 T-2 equivalents.

Even if the present tanker construction program geared to that goal is completed, there will be only moderate spare tanker capacity. If world oil consumption exceeds current forecasts, as seems possible, the tanker situation in 1975 could be nearly as tight as it is in mid-1970.

1/ Including vessels of 2,000 DWT and larger.

2/ A T-2 tanker is defined for this purpose as a 16,765 DWT tanker with a speed of 14.5 knots.

3/ During the tight tanker situation/ⁱⁿ mid-1970, the USSR reportedly was having difficulty in arranging tanker charters for delivery of oil to some of its customers in the Free World.

Table 1
World Crude Oil Production ^a/
1969 - 1970 (First Half)

	1970 (First Half)		1969	
	Thousand Barrels Per Day	Percent of Total	Thousand Barrels Per Day	Percent of Total
World Oil Production	<u>44,500</u>	<u>100.0</u>	<u>42,020</u>	<u>100.0</u>
Free World	<u>37,000</u>	<u>83.1</u>	<u>34,830</u>	<u>82.9</u>
Eastern Hemisphere	<u>21,000</u>	<u>47.2</u>	<u>19,145</u>	<u>45.6</u>
Middle East	13,390	30.1	12,355	29.4
Iran	3,740	8.4	3,375	8.0
Saudi Arabia	3,630	8.2	3,245	7.7
Kuwait	2,920	6.6	2,773	6.6
Iraq	1,510	3.4	1,525	3.6
Abu Dhabi	610	1.4	600	1.4
Qatar	360	0.8	355	0.8
Oman	350	0.8	320	0.8
Other Middle East	270	0.6	162	Negl.
North Africa	4,800	10.8	4,305	10.3
Libya	3,550	8.0	3,110	7.4
Algeria	950	2.1	955	2.3
Egypt	300	0.7	240	0.6
Nigeria	900	2.0	545	1.3
Indonesia	850	1.9	715	1.7
Other Eastern Hemisphere	<u>1,060</u>	<u>2.4</u>	<u>1,225</u>	<u>2.9</u>
Western Hemisphere	16,000	36.0	15,685	37.3
United States	9,600	21.6	9,215	21.9
Canada	1,230	2.8	1,097	2.6
Venezuela	3,700	8.3	3,640	8.7
Other Western Hemisphere	1,470	3.3	1,733	4.1
Communist Countries	<u>7,500</u>	<u>16.9</u>	<u>7,190</u>	<u>17.1</u>

a. Because of rounding, components may not add to the totals shown.

Table 2
Free World Oil Consumption, 1969 and 1975 ^{a/}

Area	Thousand Barrels Per Day		Percent	Increase
	1969	1975	Average Annual	1975 over 1969
Total World	43,330	62,100	6.1	43
Free World	<u>37,000</u>	<u>52,500</u>	<u>6</u>	<u>42</u>
Western Europe	<u>11,400</u>	<u>16,100</u>	<u>5.9</u>	<u>41</u>
West Germany	2,400	3,000	3.8	25
United Kingdom	2,000	2,400	3.1	20
France	1,700	2,250	4.8	32
Italy	1,600	2,550	8.1	59
Netherlands	<u>650</u>	770	<u>2.9</u>	<u>18</u>
Belgium/Luxembourg	500	660	<u>4.7</u>	32
Sub-total	8,900	11,630	4.6	31
Denmark	300	480	<u>8.1</u>	60
Turkey	200	250	3.8	25
Greece	150	200	4.9	33
Norway	150	230	7.4	53
Portugal	100	165	8.7	65
Iceland	20	50	16.5	150
Total NATO	9,800	13,000	4.9	33
Other Western Europe	1,600	3,100	11.7	94
Japan	<u>3,300</u>	<u>7,000</u>	<u>13.4</u>	<u>112</u>
United States	<u>14,000</u>	<u>17,700</u>	<u>4.0</u>	<u>26</u>
Other	<u>8,200</u>	<u>11,700</u>	<u>6.1</u>	<u>43</u>
Communist Countries	6,300	9,600	7.3	52

a. Because of rounding, components may not add to the totals shown.

1965		1960		Percent Increase 1970/1960	
Thousand Barrels Per Day	Percent of Total	Thousand Barrels Per Day	Percent of Total	Average Annual	Total
30,475	100.0	21,050	100.0	7.7	111
25,080	82.3	17,695	84.1	7.7	109
11,655	38.2	6,365	30.2	12.7	230
8,340	27.4	5,235	24.9	9.8	156
1,905	6.2	1,060	5.0		
2,205	7.2	1,315	6.2		
2,345	7.7	1,685	8.0		
1,315	4.3	955	4.5		
280	0.9	0	0		
230	0.8	175	0.8		
0	0	0	0		
60	0.2	45	0.2		
1,905	6.2	245	1.2	34.6	1,859
1,220	4.0	0	0		
560	1.8	185	0.9		
125	0.4	60	0.3		
275	0.9	20	0.1		
480	1.6	415	2.0		
655	2.2	450	2.1		
13,425	44.0	11,330	53.8	3.5	41
7,805	25.6	7,035	33.4		
935	3.1	540	2.6		
3,505	11.5	2,845	13.5		
1,180	3.9	910	4.3		
5,395	17.7	3,355	15.9	8.4	124

TABLE 5
US OIL IMPORTS - 1969

Volumes in Thousands of
Barrels Per Day

<u>Origin</u>	<u>Crude Oil</u>		<u>Products</u>		<u>Total</u>		<u>Imports as Percent of Consumption</u>
	<u>Volume</u>	<u>Percent</u>	<u>Volume</u>	<u>Percent</u>	<u>Volume</u>	<u>Percent</u>	
Canada	548.0	35.9	64.2	4.1	612.2	19.9	4.3
Mexico	0	0	43.3	2.8	43.3	1.4	0.3
Far East	88.7	5.8	0.9	Negl.	89.6	2.9	0.6
<u>Caribbean</u>	494.4	32.4	1,265.5	81.3	1,759.9	57.1	12.5
Venezuela	428.5	28.1	924.4	59.4	1,352.9	43.9	9.6
Other	65.9	4.3	341.1	21.9	407.0	13.2	2.9
<u>Middle East</u>	175.8	11.5	6.8	0.4	182.6	6.0	1.3
Arab	127.4	8.4	6.8	0.4	134.2	4.4	1.0
Iran	48.4	3.2	0	0	48.4	1.6	0.3
<u>Africa</u>	218.9	14.4	3.5	0.2	222.4	7.2	1.6
Libya	131.2	8.6	0	0	131.2	4.3	1.0
Algeria	1.3	Negl.	0	0	1.3	Negl.	Negl.
Other	86.4	5.7	3.5	0.2	89.9	2.9	0.6
Other	0	0	173.2	11.1	173.2	5.6	1.3
TOTAL	<u>1,525.8</u>	<u>100.0</u>	<u>1,557.4</u>	<u>100.0</u>	<u>3,083.2</u>	<u>100.0</u>	<u>22</u>

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Table 3.
Origin of Crude Oil Imports - 1969
(Principal Importing Areas)

ANNEX

Importing Areas	Origin									Imports as Percent of Consumption
	Middle East Arab	Iran	Libya	Africa Algeria	Other	Caribbean	Communist Countries	Others	Total	
Western Europe	45	5	23	7	6	6	7	1	100	97
West Germany	28	6	45	10	3	4	4	Negl.	100	94
United Kingdom	51	8	22	1	6	7	0	5	100	100
France	46	4	15	30	Negl.	3	2	Negl.	100	98
Italy	53	3	29	3	Negl.	2	10	0	100	99
Netherlands	54	15	21	4	4	2	0	Negl.	100	97
Belgium/Luxembourg	37	23	20	7	2	9	0	2	100	100
Others	48	5	15	7	2	12	11	0	100	99
Japan	45	43	Negl.	0	Negl.	1	1	10	100	89
United States	8	3	9	Negl.	6	32	Negl.	42	100	10
Others	46	18	1	1	1	24	4	5	100	N.A.

Table--4

ANNEX

Destination of Crude Oil Exports - 1969
(Principal Exporting Areas)

Destination	Exporting Areas							Percent
	Middle East Arab	Iran	Libya	Africa Algeria	Other	Caribbean	Communist Countries	Others
Western Europe	58	26	93	93	65	20	83	5
West Germany	6	4	24	19	N.A.	2	15	N.A.
United Kingdom	11	5	14	2	N.A.	4	0	N.A.
France	9	3	11	57	N.A.	1	7	N.A.
Italy	12	2	22	4	N.A.	2	38	N.A.
Netherlands	8	5	10	0	N.A.	1	0	N.A.
Belgium/Luxembourg	3	5	4	5	N.A.	1	0	N.A.
Others	11	2	8	6	N.A.	9	23	N.A.
Japan	20	47	Negl.	0	Negl.	1	7	17
United States	2	1	5	Negl.	10	53	0	39
Others	20	26	2	7	25	26	10	39
Total	100	100	100	100	100	100	100	100